Al Broaddus

President

Richmond Fed career: 1970-2004

Interview conducted in July 2012

[Note: When the recording begins, Mr. Broaddus is discussing the construction of the Bank's headquarters building on East Byrd St.]

BROADDUS: It, uh, it -- it was just a vacant lot down here and it wasn't just -- just -- that's this lot, there was nothing -- was -- very little down here on the river had been done. And I can remember, even in '78 when we came in, when you looked out to Brown's Island, uh, you had, uh, the river -- I guess it was the remnants of the old Albemarle Paper Company or the, uh, or -- or the James River Paper, whatever it was at that time, I'm not sure. But it was still there. Uh, and of course, the expressway was not here. But we were allowed to park here.

INTERVIEWER: (Laughing.)

BROADDUS: And the build -- the old building, as I'm sure you know, was what is now the Virginia Supreme Court, right across from the Capitol there at 9th and -- 9th and Franklin so we would, uh, we were -- we were able to park free here, which was a great benefit because there wasn't enough -- there was no underground garage or anything like that at the old -- well, there was a small garage at the old building but it wasn't for all of us. And, uh, we used to -- and you mentioned, of course it's hot as a mischief these days here.

INTERVIEWER: Oh my goodness, yes.

BROADDUS: And we use -- I can remember some 103 or 104 days where you'd be down here to get your car and, you know, you'd walk up the hill to the Bank and it would be hotter than the -- than the hinges of Hell and you'd open your car, you know, and it was -- it was something. But it did -- the -- the transformation of this whole region has been huge. And, uh, Bob, when you interviewed him, he probably told you that -- that this building was really the, uh, centerpiece of the initial development effort on the river here. I just -- it wasn't the first building here. What has now become the Dominion Resources Headquarters --

INTERVIEWER: Uh-huh.

BROADDUS: -- of course, I'm not -- I'm not even sure Dominion even existed. It was the Virginia Electric and Power Company and then Dominion, I think, was built around it. Uh, and that building was -- was here, but there wasn't a whole lot there. Tredegar was built in -- and not much -- now, I think the Ethel property over here, the white building, was here.

INTERVIEWER 2: (Inaudible.)

BROADDUS: Of course the Towers weren't here and this wasn't here.

INTERVIEWER: Yep.

BROADDUS: So there really wasn't much and -- and, uh, yeah. I think Bob -- I've studied this a little bit, Pam, because I've been involved with Tredegar and in some of the redevelopment effort there.

Uh, the history here is interesting. There was railroad station right across -- in that -- where the plaza is now. I'm not sure I've got it exactly located. Uh, and -- and -- and, you know, the Tredegar Ironworks, down where -- where the American Civil War Center is now and the park services facility is now and it was one of the great industrial facilities of this -- of the southern United States. And of course, it was the armaments, uh, maker for the Confederate -- for the Confederacy. And so the train, uh, tracks, uh, you know, you'd have the station over here (indicating), but then trains would go down, there were sidings, so they'd bring their raw materials in for Tredegar to -- and they would just make armaments. I mean, they made, uh, very early on -- I think they existed into -- well into the 1900s. And they made, you know, stuff for -- parts for appliances and that kind of thing. I think they made some sheet steel, not -- check me on this. And I know this is not a history of Tredegar that you're trying to put together here, but they -- there was -- there was that sort of stuff. And then it just sort of decayed and so the Bank was part -- and that's the key point here, as I'm sure Bob explained, the Bank was part of this effort to make the Richmond riverfront what it is today. And there is still a long way to go --

INTERVIEWER: Yeah.

BROADDUS: -- but we've made a lot of progress in here.

INTERVIEWER 2: Really have.

BROADDUS: And I would argue that this building, uh, has been a huge part of it. It's a gorgeous structure and it defines the Richmond skyline. Uh, and, uh, I, uh, get no credit for that. Bob -- Bob did -- Bob Black, uh, is hugely responsible. I mean, he wasn't the only one involved in building the building, but there was -- and I expect Bob told you this -- there was an effort at one point, at the -- right at the end of the game, I mean, we were just getting ready to start building it, where they wanted -- one of the governors wanted to make it a much lower level. He thought it would be a more efficient building for things like check collection activities, you know, and the processing that goes on. And I think he recommended, uh, you know, maybe rethinking the whole design from a tower to a-- make sure I get this all straight -- I know he wanted to at least reduce the height to some extent. And, you know, plans were in place and there was a lot riding on it from the standpoint of the city and, uh, and Bob stood tall and we got what we have.

And of course now, check collection is not a big activity, you know, and then -- and so, if you were really forward-looking, this building is a much more desirable structure in this space, now, than something like a [unclear] industrial place would have been if we had gone in the other direction. So, it's not, you know, they were doing what -- they were trying to do the right thing, I guess, but Bob -- Bob was right and, uh, we got some support from certain key board members, which is an important aspect of this. And I think Bob probably talked about Bob Lawson.

[00:05:08]

INTERVIEWER: Yeah.

BROADDUS: And it, uh, it's really served us well.

INTERVIEWER: Great.

Well, going back in time, tell us about how you came to the -- the Richmond Fed and the various jobs and positions that you've held.

BROADDUS: Well, uh, you know, I, uh, and I don't want to give you more than you want to listen to.

I -- I was a political science major and got interested in -- in economics later. And eventually, uh, when I was a little bit older than most people, I went back for a PhD. I went to Indiana University; and this would have been in the late '60s, to finish that program, um, everything except the thesis in, uh, 1970. I came to Richmond -- I grew up in Richmond. I never really expected to come back and I had -- I had an offer at the Cleveland Fed as well as the Richmond Fed, also one at the FDIC. And I had -- I really had to struggle a little bit because it seemed not very adventurous to come back to your hometown. Fortunately for me, my wife is not a Richmonder. She liked Richmond and, uh, and of course, you know, it -- however, we interviewed in -- for the Cleveland job, Margaret went with me, and we went over there in February.

INTERVIEWER: (Laughing.)

BROADDUS: (Laughing.) That was pretty much enough. (Laughing.)

INTERVIEWER: (Laughing.)

BROADDUS: It was -- it's a wonderful institution and I -- I know I would have enjoyed working there as well, but it was, uh, you know, that helped -- helped make the decision and so we came back. And, uh, I still had to finish my -- my initial year. So the -- the deal was you would have some of your time to work on your PhD thesis, which was about banking, and so it was relevant to what we were doing and it wasn't -- wasn't just time off.

So I just -- so I came back and, uh, uh, you know, I started off in the research department as a junior economist or economist or whatever the title was. And my initial, uh, analysis -- we -- we had to analyze proposed bank deals, like bank mergers, uh, or other kinds of, uh, structural changes and -- or transactions. It was under the old bank -- I can't remember the, you know, exactly if it was a Bank Merger Act was one of the things that mandated it to then do that. So that was my initial work was a lot of case work. Uh, it was within research but it was more like the kinds of things people in supervision and regulation do.

But I was really interested in monetary economics, so it wasn't very long, as we got through into the 1970s, you know, the inflation rate was beginning to build, uh, this was the era of, eventually, very high inflation. So I got interested in -- in that and, uh, began to write some papers that had to do with that. So just sort of moved, you know, began to be, to play more of a role in the, uh, in advising Bob, who was president at the time, on monetary policy in his capacity as a member of the FOMC. And, uh, I just continued along, uh, those lines through the '70s and in -- and I was able to do some research, write some papers.

I had wonderful colleagues and they're still close friends, uh, Bob Hetzel, of course is still here. And, uh, I learned nearly as much and continue to learn as much from Bob as I did from my teachers, uh, in -- in universities. Uh, Tim Cook is another still close friend that was, uh, he -- he focused on financial economics and financial markets and so I worked a lot with him and did a couple of papers and, uh, and, uh, with him. Uh, a key point, I can't name everybody, but we hired Marvin Goodfriend, which was an exceptionally, uh, and he brought -- it was one of the most important things I did while I was here. Uh, and Marvin and I began to work together. Yeah.

So when -- by the time we got around to the, uh, uh, the late 1970s, the inflation rate was really, uh, moving ahead very quickly and now we were -- we had double digits, I guess, I don't have exact dates, but 1978 is the year that I remember. That was the year that Arthur Burns left as Chairman and a man named G. William Miller came in. He was a bright fellow and -- and a -- and a very good -- good man, but not really well-prepared for this job. So, in that situation, a lot fell on the other members of the FOMC who had more experience with Fed policy. And Bob Black was a perfect example of that, to try to be influential in the -- in the, uh, in the FOMC meetings. So -- and Bob wanted -- wanted to do that. And -- and -- and Bob was an, uh, was really our first Richmond Fed great anti-inflation hawk.

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Uh, so people like, uh, Marvin and Tim and Bob Hetzel and I sort of formed a group, uh, uh, that worked to try to help Bob position himself, through some talks we wrote and the statements that we prepared for the FOMC meetings, to be influential -- the good of monetary policy and the good of the -- of the country and in these meetings and helping to bring inflation down. So he was proposing more aggressive that wasn't, you know, just in general. Uh, the details differed from -- from one meeting to the next, but his -- his basic approach was, uh, to argue for stronger, more bold actions on the part of the Fed and to tighten monetary policy more aggressively, even at the -- at the -- at some short-run risk to the -- the general economy and jobs, but with the expectation that that would benefit the economy over the -- over not just the really long-run, but over the intermediate-run in the form of less, uh, less inflation, uh, less pressure in the financial markets, more confidence in the economy. So he -- he argued that -- those points and a lot of my work, and it was exciting work and I remember those as some of the most fun times of my career here. Even more fun than being -- when I was president. Because I -- we were all young and excited and Bob was a great leader and he was a real -- he was listening to us and -- and letting us do things that we thought were substantive.

He -- I was also able to start attending FOMC meetings and I'll be eternally grateful to Bob for that because I think I attended -- he became president in 1973 and he had been here a long time. Uh, I think I attended my first FOMC meeting, uh, uh, in -- in 1973, right -- shortly after he became president.

INTERVIEWER: Wow.

BROADDUS: And tell me if I'm talking too much, telling you more than you wanted.

INTERVIEWER: No.

BROADDUS: But you -- I -- I left out one of the most important things of this whole era: Jim Parthemos was the research director. Uh, and, uh, you know, he died recently and it's really, I think, one of the great figures in the history of this Bank. And, uh, but he was, you know, the kind of guy that was never trying to control things and he saw that I needed to get some experience and he -- I think he figured that I might be able to advance and he allowed me to go to these meetings a good bit of the time.

So I -- I saw a lot of the FOMC, uh, up close and personal when Arthur Burns was chairman and I was there for, uh, when Miller was chairman. I can tell you some funny stories about that, and Volcker, all long before I got to sit at the table. So I -- by the time -- and of course, at the end of, uh, Bob's career Jim left the Bank, Jim Parthemos left the Bank in '85. By this time I had become research director, so I was his principal advisor. But we were still working as a team. We never -- I never saw it, uh, then -- either then or before, as a one-man show. We had a group and it was a strong group. And when I became president, much of that group remained. Uh, you know, and then Marvin and Bob and Tim were the -- were the core of it. Uh, and there were others, Bill Cullison is a -- another fellow that was very important in that era.

So we, uh, we had great times and we had great fun, uh, preparing for those meetings. We would come down here on -- on the weekends and, uh, you know, in our T-shirts and we work out these things and then, uh, you know, I'd head home and that was -- Bob was a more formal person. We put on our coats and ties to go out and --

INTERVIEWER: (Laughing.)

BROADDUS: -- uh, and brief him at, uh, uh, in -- in -- at his home.

But I think we made a difference. I hope we did anyway.

INTERVIEWER: Uh-huh.

BROADDUS: I think, uh, because I served -- I would listen to Bob make his -- his statements, uh, and -- and this -- the -- I -- I was attending pretty much all of the meetings. Uh, it -- when I was research director Bob wanted me to go with him. Uh, and this was the Volcker era, all right, so that we were there during the years when Volcker tightened, really aggressively, in order to bring the inflation rate down. So it would have been in '80, '81, '82, in those years. And so, you know, then we -- we began to -- the long, uh, uh, but, uh, exhilarating road towards low inflation. And we have different problems now, but in those days we -- that's -- that was job number one and we got it done. Uh, so there were some bumps in the road, but it was a lot of fun.

Uh, uh, let's see. What else? Well, I -- I guess, uh, from there, I would just say that by the time I became president in '93, I had been in that, uh, you know, the first thing I said at the table was I had been in this probably a hundred meetings, maybe not quite that many, but --

INTERVIEWER: That's extraordinary --

BROADDUS: So --

INTERVIEWER: -- that 20 years before you became president.

BROADDUS: And, uh, it was -- that's exactly right. I hadn't thought about the 20 years, it was 20 years, I think. And, you know, I'd have to check the record, Pam, but I'm almost sure that I went to one -- at least one meeting in 1973. So that was 20 years, but that was great because I -- you know, I had all the history. And when I sat at the table they all knew, everybody there knew that I was not a green guy. (Laughing.)

[00:15:01]

INTERVIEWER: No.

BROADDUS: It was -- so I was able to kind of jump into the flow pretty quickly. And -- would -- would you like me to just review then just go on, uh, from, uh, what -- what can I do to --

INTERVIEWER: Yeah. Well --

BROADDUS: I'm not --

INTERVIEWER: Actually, um, there is one thing I wanted to ask you about that you touched on that we were going to ask you. And you touched on it immediately, and that's about the inflation hawk tradition here. We spoke to Mr. Black about that and he talked about how, you know, his focus on price stability. So we'd like to hear from you, your thoughts about the importance of that and how the Richmond Fed has emerged as a leader in price -- in advocating for price stability.

BROADDUS: Sure. Uh, well, it's as, uh, as I'm sure you heard from Bob, uh, it -- the inflation, uh, we -- we've has such low inflation recently that young -- lots of young people, uh, not you guys --

INTERVIEWER: (Laughing.)

BROADDUS: -- but you know --

INTERVIEWER: Well, thank you.

BROADDUS: -- don't understand (laughing) --

INTERVIEWER: (Laughing.)

BROADDUS: -- you know, the , uh, that really don't know what it's like to be in a situation where you're -- you're looking at double-digit, maybe not hyperinflation, but 10, 11 percent persistent inflation. And what that means is, uh, you know, if you're, uh, and it hurts a lot of people. If you're a retiree on a fixed income, and the fixed income is not moving up, but the inflation rate, uh, you're real income is being eroded.

From, uh, uh, uh, a personal example I always use is my own mother who was a public school teacher here in Richmond for years. Uh, so she retired in 1969, right before this all began, and it was , uh, she got small -- there was -- there weren't -- there was no regular cost of living, uh, increase, that I recall. I think there were a few step increases from time to time. But basically, uh, her -- her income that -- and she was anything but wealthy, was just eroded. So I mean, I saw it with my own eyes. And that happened to lots and lots of people.

Beyond that, though, in, uh, when you have high inflation, which in -- and part -- partial of that is that the public, especially the business and financial communities, have little faith in the Fed and what we now refer to as the credibility of the Fed, very low. They don't know what this -- sure, maybe they could live with ten -- if they knew that ten percent inflation was -- it was going to be ten percent, no more, forever, you could kind of index to that and adjust to that and find ways to deal with it. But if -- if you've seen inflation rise, steadily, uh, in kind of a lumpy way, you don't know what's going to happen. And if you're a business guy and you're contemplating a significant investment, uh, and -- and you see all of this potential volatility out there, you're -- you -- you're just -- you're just gonna temper what you do. It's going to slow and you -- you multiply that by all the regular businesses and financial businesses and -- in the country and you're going to -- you're very likely to have, uh, a long-run -- a slower rate of growth, uh, less, uh, and, uh, impressive increases in our standard of living. So, you -- you -- inflation is just a pernicious condition when it's high. And when it -- in the extreme example, of course the German and great inflation in 1923, many people, I think , would argue that that played a leading role in the rise of the Nazis there, so it can get much worse than it did here in the '70s.

But it's just a, you know, basically, it -- uh, uh, I -- I remember, uh, it being in particular there was a wonderful former member of the Board of Governors named Henry Wallach. He was one of the long -- longest serving Fed governors in Washington, uh, and probably in the history of the Fed. And he was one of the -- he -- he would -- let's see, he was one of the early dissenters. He dissented because he didn't like -- he's like Bob, uh, Black, he -- he didn't believe that the Fed was acting aggressively enough to bring inflation under control and, uh, it's -- so he's -- and he's even a pre Richmond hawk, hawk.

INTERVIEWER: (Laughing.)

BROADDUS: He -- he dissented a lot. And he wrote a paper, uh, that, uh, I have always loved called Honest Money. And it was about -- basically saying, you know, when you have inflation and it's -- and -- and it's high and it's uncertain how much higher it's going to go, the government issues money as a store of wealth and you -- and it's just dishonest in some fundamental sense. You don't know what that number -- you got a number on it, but what does that mean. So -- and -- and it hurts high-income wealthy individuals from business, firms can deal with that, even when it's uncertain, you know, they'll find ways to, uh, to work around it. And, uh, even for them, it can be -- it can be problematic, clearly. But, uh, for -- for the vast majority of middle-class Americans, it's just -- it's, you know, it's a potentially a disaster so it's -- it -- it erodes money. The money unit, that service is one of the fundamental, uh, things that our government does, uh, you know, in a free, uh, uh, democracy, for its people. And when you can't trust that it -- it erodes more fundamental, broader trusts between the, uh, the populace and -- and -- and the government so. Uh, the -- and I'm making a long speech here and it's probably -- you can probably find in a text of this somewhere in one of Bob's speeches or mine or Jeff's --

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INTERVIEWER: (Laughing.)

BROADDUS: But, uh, that -- that's the argument, I guess, inflation and it's very, very powerful so. That was problem that -- we're dealing with a different set of problems now, but that was the problem that we faced throughout most of my career. Uh, it started just about -- I got here just in time for it, in 1970, because that's when it began to rise. And then we broke it, you know, in the early '80s under -- under chairman Volcker's exceptional leadership. And then it was -- but -- but you couldn't bring it down overnight.

INTERVIEWER: Right.

BROADDUS: What -- much of what Bob did and that I did, and Jeff has certainly followed up on this, although he has other issues to deal with, was once the inflation had been broken, and I think we helped contribute, Bob, at that time, was the

Richmond hawk at that point. And he had helped, uh, buttress, uh, uh, Volcker. I think he helped push him into the decision to act strongly to -- to bring inflation under control. Uh, and then he supported him when that a -- that caused the recession. And, uh, you know, and Bob, uh, stood tall in that period.

Then the -- then the issue was bringing it all the way down to the point where the Fed was really credible in the eyes of the public, uh, as -- as -- as -- as an institution that would keep inflation under control. It took about 15 or 16 years to do, but only in the mid-'90s that we really got to the point where inflation was low and people began to think, hey, the Fed is serious; they've got it down and they're not going to let it get up again. They're willing to take the hit. So that, you know, Bob played a role in that in the 1980s, when he was president, into the early 1990s. I became president in '93, uh, and I guess in -- in 1994, that was my first voting year. I have dissented a number of times. Uh, I was the Jeff Lacker of the year, I think.

INTERVIEWER: We wanted to ask you about that too.

BROADDUS: (Laughing.) And, uh, uh, my staff was, uh, sometimes even -- even more aggressive than I was, but I -- then they were -- they were right. And we -- and we -- we did that because even when inflation had been brought down, we were very concerned that the progress might, ironically, lead to complacency and, you know a lack of discipline and then the thing goes back up again. So you really had to lock in the Fed's credibility, uh, as -- and that's -- that's why I dissented a number of times because I didn't think we were doing that aggressively enough, uh, so that made -- if that made me a hawk so then there was hawk number 2.

INTERVIEWER: (Laughing.)

BROADDUS: Of course, uh, it, uh, you know, we can go back and fill in the details, but to just give you the whole picture: Jeff was my -- Jeff came in, I guess into the Bank, around what? 1985?

INTERVIEWER: 1989.

BROADDUS: Oh, was it '89? I was thinking it was earlier than that.

And, he, you know, we hired him, uh, from the faculty at Purdue. I went to Indiana so I was glad to -- glad to do something to diminish their -- (laughing) -- that's -- they're big rivals, you know. Uh, just kidding.

INTERVIEWER: Despite that fact, you still hired him.

BROADDUS: Good -- that's what -- I, uh, we -- and Jeff came and he was a great hire, obviously. Uh, funny, it, uh, interestingly, you know, his interest at the time was in banking theory as distinct from mon -- macro monetary. I mean, he knew a lot about that too, but I mean, he -- he was particularly interested in, uh, in banking operations, financial markets, uh, issues, uh, like moral hazard, you know, what -- how do you -- what -- all -- all of the kinds of, uh, issues that are related to how, uh, the structure of banking and financial markets can undermine stability if they're not -- if it's not done right and how you might change it to make it more stable. So he was doing a lot of work in that arena, but it became very -- to me, apparent to me and Marvin and others early on that he was a very, very capable guy. And he was not only a good economist and a good thinker, uh, but also really good on his feet and a great speaker and, uh, and magnetic, uh, personality. So it was pretty clear to me early on that he was going to be, if he wanted to stay at the Bank, he was going to be a contender, uh, to be, uh, president. Uh, and that became increasingly, uh, you know, uh, apparent as went -- went through time.

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So, and you know, I left in '04 and -- and -- and he came in and, I guess his first FOMC meeting would have been the June meeting in 2004, I was still at the Bank, but I couldn't go because I would -- before the next meeting I would be outside of the Fed and able -- I'd have inside -- insider information, so he took over then. And this was, you know, a period where we had -- I guess I need to go back and , uh, point out that one of the most important things that happened in my career was we -- we did achieve price stability pretty clearly and by consensus in '98 -- I would say '98, '99, in that -- in that era. Um, and -- and then, you know, it -- it -- we did -- ironically, came in to, uh, uh, a situation where the risk was on the downside, on the other side, inflation was getting too low. I never thought -- I never thought once about that in 30 years, so it was a little -- I needed to do a lot of thinking to get my arms around deflation. Of course, we'd experienced it in -- deflation in the '30s and it was a failure of the Fed to act effectively against deflation that really made the depression in the '30s what it was and it's -- and that was one of the really -- that was the greatest failure in the history of the Federal Reserve. So, you know, we -- we -- there certainly was precedent, I mean, it wasn't whole new ground.

Uh, fortunately for me, Marvin Goodfriend was highly knowledgeable about this, so it -- and Bob Hetzel as, uh, uh, as well, so he could write speeches on Milton Friedman who, you know, was a great historian of this. So, uh, in the 2002, 2003 period, when -- when the inflation rate got so low that it was approaching zero, so that you cross that line and you had the situation where prices are going down, then just a, you know, the other side -- what I said about the inflation threat earlier. If prices -- if the general price level, not individual prices in some area, but if the general price level is declining, uh, you can get into what is -- economists refer to as debt deflation cycle. So, you know, if you're a debtor, the real value of your debt is going up. Uh, if you're on a fixed income, yeah, the real value of -- actually you're better off in that situation. Uh, but if prices are going down, that can effect profitability, short-run profitability and -- and companies, uh, you know, in the industrial sector and elsewhere in a way that's, uh, that's disadvantageous. Any -- any business firm that has a significant amount of debt perhaps because they thought they could make an investment that would, you know, was -- was productive and normally would have been, but all of a sudden their debt, you know, prices are going up so the demand is going down, their debt, in real terms, is going up, these are the kinds of things that can harm an economy when you get into a deflation. So we began to realize that while it was a right -- we -- it wasn't upon us, it was a risk, and a thing that sort of underlined that at the time was what was going on in Japan.

Now, Japan is not the U.S., there are very different circumstances there, but they began to face deflation, uh, not -- not -- not of the -- not the really virulent, uh, type that we had in '30s, but still, a meaningful deflation in the early '90s and so we were watching that and how -- Marvin and I actually went to a conference over there probably around 2002, 2003 and I began as -- to -- all of a sudden I began to be concerned about that. And there was a meeting at the FOMC, an FOMC meeting, and I think, uh, Pam, it would have been maybe, uh, not sure of this, could have been the November '02 meeting, one of those meetings, uh, where, uh, I made a statement, uh, that, uh, you know, about my concern about this. Well, that got the -- everybody's attention because here is this guy from Richmond, who has always been this hawk -- in fact, there was some jokes made, uh, if you really read the transcript, uh, uh, you know, and people were, at first there was some amusement and I got a lot of -- actually, when I retired, there was a lot -- the one -- Bob -- Bob McTeer, you know.

INTERVIEWER: Uh-huh.

BROADDUS: Who I should also mention, he was one of my early colleagues and of course he, uh, wound up as the Dallas President. Uh, but he sent -- gave me a picture, one of those drawings, you know, with a hawk on one shoulder --

INTERVIEWER: Yes.

BROADDUS: -- and the dove on the other.

INTERVIEWER: I've seen -- I've seen that. (Laughing.)

BROADDUS: Uh, and so it was -- he was, uh, it was sort of an unusual period. It, uh, uh, I look back on that and I think it was a reasonable position to take under the circumstances. And we're still dealing with some of that.

INTERVIEWER: Yeah.

BROADDUS: And you can see in Japan that, you know, it's been there, and it's still thee. I mean it's now -- that was -- you know, that started in 1990, uh, after their, uh, big real estate bust and they've never really gotten out of it and there are a lot of reasons for that. So it -- it is something you need -- we need to be concerned about. But by the time I left the Fed in '04, we were climbing out of that and that risk had really diminished and, for the risk returned to one of gee, the economy is really beginning to roll, we need to -- we need to move up. And -- and we were tightening policy --

[00:30:02]

INTERVIEWER: Uh-huh.

BROADDUS: -- uh, at the time I left, that's where I left the movie. Jeff comes in and Jeff immediately took over the, uh, you know, and -- and -- and saw -- of course he stepped into the job just like I did, with a lot of experience, he had been to FOMC meetings and so he was one of those who was pushing to move interest rates up faster, before things got away from us. Well, you know the rest and -- and you guys know how we -- I did, uh, uh, I have huge, uh, uh, you know, new respect for the way Jeff has, uh, has done, uh, done a job in these difficult, uh, years, different set of issues. Inflation, per se, has not been a, uh, you know, an immediate, uh, uh, fact of life, the way it was when I was there in the early years. But it was -- it was -- it was a high risk there as we -- as the economy turned. You know, we were -- the housing was -- we had a boom, as we all know, that eventually burst, uh, bubble, uh, there were -- we -- we had had the high tech bubble back in the early 1990s.

But in any event, when -- when Jeff was, uh, settling into the game -- into the job in 2005 and 2006, uh, there was a risk that all, you know, if things -- it turned out that everything burst, which was not a good way to get out of it, uh, I mean, in some -- you could argue that we -- we didn't face a significant acceleration of inflation because the bubble burst in time to prevent it. That's the hard way to -- to fight inflation, but, uh, Jeff was pushing for the Fed, not knowing that this was going to be the outcome, and -- and seeing the inflation risk. He quickly developed the risk as yet another Richmond inflation hawk, maybe the most aggressive of all of them. Uh, uh, in -- in pushing, uh, you know, the Fed to act boldly, before that took place. And one can argue that if -- if -- if they had -- if his advice had been taken -- I think his first voting year was maybe ’06, if I remember, it might have --

INTERVIEWER: Yeah, ’06 was the --

BROADDUS: You know, if we’d, uh, if we’d taken his advice -- of course he was at the meetings before he actually had to vote and, uh, I know that he was arguing strongly for -- for strong action. And if that, uh, maybe had been followed, maybe the bubble would have -- if it had -- if it -- if he had burst the bubble it would have been a bit smaller explosion than it eventually turned out to be.

INTERVIEWER: You talked about price stability, uh, you know, being one of your proudest achievements, but just in terms of -- of being president of the Richmond Fed, what would you consider your -- your proudest achievement, besides the achieving price stability from the Federal perspective?

BROADDUS: Well, could -- that -- that one I would have to say that it -- it, you know, I certainly didn’t do that by myself, but, uh, I do believe that -- that I -- I played a role, but always in the context of the team that we had here. And it’s certainly people like Marvin and Bob who were there, always with me and pushing me to play a bigger role as I did. Personally, I was a mouthpiece, essentially. So, uh, that -- that was a -- that was a big achievement and I, you know, I think, uh, it may be turning internally to the Bank itself, as distinct from what we did externally. Well, maybe I’m still on the -- on the -- on the external side, I would say, uh, I think I built -- Bob Black had always been a very, uh, uh, loyal to the banking industry. Of course in those days, banking was different.

INTERVIEWER: Uh-huh.

BROADDUS: You didn’t just have all these -- you had these, you know, now we have some huge banks and some big regional banks and a few small banks left, but, you know, all of our district was populated with large numbers of smaller community banks and they -- they were the core of the financial markets of our district. Uh, and Bob was tireless in his, uh, outreach to them, uh, speaking to risk. And they had more conventions; they had county conventions of bankers and stuff like that.

I remember there was a group up around Lexington that was called Four-County Bankers Association.

INTERVIEWER: (Laughing.)

BROADDUS: And Bob knew them all and he even -- he really reached out. He reached out to other people as well, uh, in -- in the district, but, uh, you know, times change. And, you know, when I became, uh, president in, uh, in -- in the ‘90s, there --

there -- the interest in the Fed had grown, generally, not just among bankers, but, uh, in the general population.

So, one of the things I've tried to do is to broaden and maybe deepen a little bit, our outreach to communities and general communities and the general business community as a distinct from banking in our district. So, uh, with the help of a lot of people, the guy that traveled with me was Kent Baker, uh, we would schedule meetings in smaller communities around the district where, you know, we would usually go up in the afternoon and have dinner, an informal dinner, with bankers in the immediate vicinity and then the next day we would invite bank, uh, uh, a group of business people, often small business firms, not just to talk to them about the Fed but, uh, but to answer their questions about what we were doing. But also to hear from them and to have a go-around, not unlike what we do in our board meetings. And these were, uh, I found these really, uh, we should have done more of them.

[00:36:02]

I did -- I tried to do one in the spring and one in the fall, it took some preparation, and I think maybe a couple of years we did three of them. But the towns that we went to were places like Logan, West Virginia; I think we went to Princeton, West Virginia; I think we went -- let's see, we went to Akins, South Carolina; I remember we went to, uh, Rocky Mount, North Carolina, if I recall. And I got opportunities, when I was president, to go to a lot of these towns to speak to, you know, chambers of commerce. Uh, the presidents were becoming more visible and so I would go talk to the chamber in some -- some small town. So we definitely -- I think making the Bank more visible to the general business community in the district, uh, was -- was something I -- I'm proud of. I think we did a good bit of that. Jeff has admirably followed up on that, if anything, made that much, much more, uh, effective, uh, program than when I was here.

Uh, I think -- another thing that I'm proud of is, uh, we created a public -- we had a strategic planning process here shortly after I became president and did a lot of things. Uh, one of the things was that -- and this is not a criticism of -- of -- of Bob, it's just the way things were done back in -- in his -- in, you know, he had his mind on a lot. You know, Bob was trying to get the building built.

INTERVIEWER: (Laughing.)

BROADDUS: And so he needed -- and I had time to do everything, but one of the things I was able to do when -- when I came, and I think was -- the Bank was a silo -- we kind of had silos here, really three. There were the research people, you know, the pointy-headed guys with propeller caps up and doing research, uh, and then there was the banking supervision arena and then there were -- what we called operations: check collection, cash, all of -- all of the, uh, financial services that -- that we perform. And there was, you know, and there was also -- we kind of loosely connected with research, there was the public affairs, we called it Bank and Public Relations at the time; uh, that was, uh, uh, you know, we had a lot of, uh, and, uh, I don't want to get too far in a tangent there. Those -- those were the three silos and they -- there was some, you know, communication, but not very much so that when we did the strategic plan, one of the main things that came out of it was look, let's -- let's -- there are synergies here that we're not exploiting. People doing supervision and regulatory work know a lot of stuff that would be very useful to the research guys that are writing papers about banking and thinking about how the structure might be improved. So, uh, we began to have -- to hold -- and not only that, the operations folks, don't forget them. I'm going, uh, yeah, they may be, uh, seen more as doing routine operations but -- but they understand how the payment system works and they how understand how a log jam can cause a problem in an individual bank that could spread, you know, beyond that. That's useful information for the supervision people. So all these -- there needs to be more communication.

So the structure that we created to do that centered around something we called Banking Policy Seminars, and I think they still take place. So we would come together, uh, I guess we did it -- did we do it twice a year or quarterly? I don't know. I would have to go back and check the record. Uh, but we prepared for these things and there were full morning and I was always there and, you know, you've got -- could be something that I needed to be there to -- to signal that, uh, you know, the president, uh, was fully behind this effort. And those were great sessions and it -- it -- they exceeded my expectations because we had discussions that would lead to conversations that would continue after the meetings were over. It generated a lot of papers in the research department that were better informed and much more relevant, uh, to, uh, a broader audience than just professional economists, uh, and so -- and then I think it just strengthened, uh, the Bank's ability to contribute to public policy. Not just the monetary policy but banking policy, regulatory policy and even things like, uh, you know, community development, insofar as it's related to banking and finance, uh, you know. We learned a lot about, uh, the banking issues that are relevant beyond the Bank itself. Uh, and people have been -- not -- not just it but its customers in your business firms so that -- I would look on that as -- as an important, uh, as an important element of it. I made a lot of speeches around the district and I think -- I -- I was never a great speaker, don't have -- don't have --

INTERVIEWER: I don't believe that.

BROADDUS: No, I wasn't. But, uh, but I -- I did -- the way I got around it was to tell -- tell -- I'd -- I'd always tell a few jokes. I'm not a great joke teller but I'd study up on this.

INTERVIEWER: (Laughing.)

BROADDUS: And Bob gave me a file of them. Some -- some of them are so corny I couldn't use them, even me.

[00:40:10]

INTERVIEWER: (Laughing.)

BROADDUS: But I'd collect them, you know, and I'd write them out and I'd put them in a file and then when I'd go to make a speech, that'd be the first thing I'd do is -- I often built a speech around these -- you'd be amazed how that decreases the tension and when you go back -- you get invited back and then they know you're going to do it so they'd listen to the dry stuff about the economy because they knew that if they didn't they might miss the beginning of another story. So --

INTERVIEWER: (Laughing.)

BROADDUS: -- I did a lot of that, uh, and I -- I think that, you know, Bob had done a lot of that too. But I -- again, there was more interest in the Fed so there was more opportunity to speak to groups, uh, you know, beyond bank and financial groups and professional economists, so we did a lot of that. Uh, the -- there was very little, uh, we didn't have cable T.V., uh, in the early -- in Bob's years or the early part of mine. There wasn't any CNBC, uh, or Bloomberg, that began to come in when, uh, the -- the local T.V. and then the networks. I remember going over and doing some early morning interviews at channel 12, so there was some of that. I'm not sure Bob ever -- ever did that because there just wasn't any opportunity, there wasn't-- they weren't doing it. But we began to do it in the '90s so I did and, you know, Jeff is a master at it, I'm not at all. But it, you know, at least started the process and did a few -- a few other things. Uh, and so I think -- and in some sense, what that does, Pam, is to put the Bank, uh, in the public eye, which you need to do if you're going to influence -- you can't just do it in the FOMC. You've got to -- you've got to present your message to a broader audience so that when you go to the FOMC, everybody there knows that you've -- that you've, you know, people listen to you at night and so they've got to listen to you too. Uh, even Greenspan.

One of the things, and this, uh, shouldn't -- please don't take this as tooting my own horn. In 2000 -- in May of 2002 and this is largely the result of a lot of spadework that Marvin Goodfriend did. One of -- the guy that is -- there's always somebody at the Wall Street Journal covering the Fed. And the Wall Street Journal is the paper of record in American finance and economy. Uh, and he is, uh, the guy -- the -- back in 2001, 2002, doing this was a man named Greg Ip, I-P. He is now working for the Economist magazine. But Greg saw a lot of me because he was based in Washington, not New York, because he was covering the Fed. And, um, that's my -- that's our district --

INTERVIEWER: Yeah.

BROADDUS: -- so, you know, if he's got a -- if he wants -- now -- nowadays, everybody knows when every Fed President's next speech is going to be. But in those days they didn't, so he would and often came to mine because they were close by and so we got to know each other and Marvin got to know him, Marvin too. So he began to write the story and then when I did this deflation focus all of a sudden, he thought that would be a story. But anyways, bottom line is he wound up writing a front-page, long article. What he was really writing about the shift from primary focus on inflation --

INTERVIEWER: Hmm.

BROADDUS: -- to more of a focus on the risk of deflation at the Fed. That was the subject, but I was the vehicle that he used to -- because I had been this hawk, you know, and so he starts off with my picture. I always remember, you know, he was able to do those little drawings --

INTERVIEWER: (Laughing.)

BROADDUS: -- and I did -- I knew that was gonna -- I knew this thing was gonna happen, but I didn't know it was gonna be a front-page article; he never told me. The way I found out was my son, who is -- at the time was working for an investment bank in Baltimore. He was on his way to New York and he picks up this newspaper and I get this call from him. He says, you -- your mug is on the front page of the journal. (Laughing.)

INTERVIEWER: (Laughing.)

BROADDUS: And, again, I think it was Marvin's were, you know, constant interview. You know, Greg would call him, you know, and ask him a lot of questions. So, all of a sudden, you know, that -- that's the most visible space in American financial journalism and, uh, that, I think in, uh, it's not about me, it's about the Bank. All of a sudden people had to take the Richmond, you know, if the Richmond -- if they're writing articles like that, in that kind of space, about the Richmond guy, then something must be going on there. So I think that -- that was a stepping stone.

And of course Jeff, who is really good with this stuff, has just built on that and strengthened it. He's doing, you know, he's doing these morning CNBC and -- and that's the most important. He's good, he's art -- they're coming after him because they -- he knows what he's talking about, he says it in a persuasive and attractive way that not, frankly, everybody in the Fed can do, at least effectively. So he -- he's using -- the medium has changed, you've got the right guy to exploit it. So that's kind of a lot -- that's sort of a long-winded story of -- of the Richmond Fed's monetary policy, uh, contributions, Pam. I'm very proud of it, proud to have been part of it, proud to see it, uh, being carried on with such effectiveness by Jeff. Proud of the legacy that Bob -- and we never -- we never would have gotten here without Bob Black, you know, building that foundation the way he did, so.

One -- some of my proud -- we got -- I got a picture, uh, on my wall, uh, at home, uh, for me. I work out of my home because you don't get an office in the Fed. When you leave, you leave.

[00:45:26]

INTERVIEWER: (Laughing.)

BROADDUS: You know, and Jeff and Bob -- me and Jeff and, uh, this, you know, this is -- this has been a good, uh, been a good home -- a good run here.

INTERVIEWER: Well, of course one of the -- the landmark occurrences during your presidency was 9-11--

BROADDUS: Uh-huh.

INTERVIEWER: -- which affected every American, everybody in the world, especially the -- the Richmond Fed. And I was wondering if you could share with us your recollections of that day and also how the Bank responded. And I know that people -- I was reading the 5E Observer from that quarter that was dedicated to that event and how the Bank responded and it -- of course, they were talking about how you and Mr. Varvel were just such a reassuring presence. And you went on the P.A. to assure everybody that all was okay. So if you could talk more about that.

BROADDUS: Sure. I -- I -- I need to preface this, Pam, uh, it was, uh, I -- I -- my memory of all the details may not be, uh, exact, but this -- I -- I'll tell you what I -- and -- and in particular, one thing that's worth mentioning, anyway. Uh, as long as everyone understands I may not have all the details exactly right. But you know, of course it was an awful day. It was a beautiful day, starting out, I was in my office. My assistant at the time was Mary Lucas, uh, and she came into the office and we did -- I didn't have a T.V. in the office. The only T.V. on 24 was in the, um, offices, in the -- in the chairman's office. [unclear]

INTERVIEWER: It's there, yeah.

BROADDUS: I don't know whether it exists now or what.

INTERVIEWER: Yeah. They have a new one.

BROADDUS: There was an office there with a T.V., now, of course everybody has access on the Internet, but we didn't have all of that so, I wasn't following, uh, uh, the events. But somehow or other, Mary found out and, uh, and my -- my recollection is -- this is before the second plane hit -- uh, but she came in and told me that, uh -- maybe it was after the second plane hit. I didn't see the second plane hit. I think I came out after that had hit. But in any event, the point was that, you know, she came in and I -- then said there's something on T.V. you -- I should see. And my recollection is that I was busy, my first reaction was, yeah, I'll come in just a second. So she said no, you need to come and look at this now. So I went over and saw and then began -- and then began to realize what was going on.

Well, the events, it's kind of a blur, but that morning, you know, you go from, uh, this -- I recall it was, you know, early September, not a whole lot going on and, uh, I was, uh, we were expecting maybe a relaxing day, but all of a sudden you're just in a constant, uh, flow of activity that lasted through the week and beyond, especially through that week.

This was, uh, so -- so, you know, I go oversee this and, uh, and people began to be frightened because it became clear that this was very quickly -- and then, of course, the Pentagon hits -- got hit and that brings it closer to home. Uh, and I think there was the news about one plane still up there, uh, that we knew about. I guess the plane that hit Pennsylvania before and, uh, uh, and I -- this is where I'm a little bit fuzzy, Pam, but I believe I'm correct in telling you that may -- there was some concern -- our building looks a lot -- it was designed by the same man that designed it -- the, you know, the Trade Center, so I think that people were nervous and so fairly early on we decided -- and this is where I went downstairs and got on the P.A. and told people, you know -- I -- I think that by that time everybody, you know, I wasn't just announcing the event, everybody seemed to know. But I said if you are concerned, you should feel free to leave the building. Uh, I did ask people in critical functions to remain, uh, if at all possible. And most -- many people did. A lot of people left, but many people did. So, it -- you know, it -- the -- the next, uh, several hours and the afternoon, uh, the focus here in the Bank began -- and my -- my focus began to shift away from the Bank, per se, because I thought I had that one under control.

[00:49:42]

Walter Varvel, my first vice president, was very effective and helpful. The team really helped here. A different team from the one I've been talking about, it wasn't Marvin. People -- Tim and people like that. But, uh, Jim McAfee, I remember Bruce Summers, uh, the guys that were, uh, uh, the -- that was, uh, let's see. Who else would have… Uh, well, uh, uh, a number of others. Uh, uh, but those I -- I remember, in particular, Jim and -- and -- and Walter, you know, as being stalwarts throughout this whole process. And we, uh, and, uh, began to turn our focus more to the Fed system as a whole and, uh, and the banking industry. And, you know, we had Charlotte, uh, at that time, uh, you know, of course, Wells -- well, you know, Wells is now headquartered in California, but it was Wachovia then. So we had two of the biggest banks in the country, and one of the very biggest, in the Bank of America, down there. So we, you know, we needed -- and -- and the issue was really the payment system, you know, and keeping the infrastructure going. Not the kind of credit issues we have been dealing with in recent years and there was more of a, you know, people -- people need to get paid and what about the infrastructure, it's going -- well, we began to have these calls, uh, and -- and if you recall that -- that almost everybody in Washington was out of town. Greenspan was in Europe, you know, he was on a plane, actually, coming back from a meeting over there.

INTERVIEWER: That's right.

BROADDUS: It got almost to the U.S. and they turned the plane around because they shut it down here and they turned the plane around. He had to fly back to Switzerland, so he was out -- out of touch. The only guy left at the Board was some -- I think he was vice chairman at the time, Roger Ferguson. Uh, and Roger Ferguson, and I'll say this about him: He -- he had come in, he had been -- he -- he was trained in economics, I think he also has a law degree from Harvard, and very talented man, uh, appointed by Clinton, uh, but he was not, uh, how -- I had always viewed him as someone that, you know, at FOMC meeting, uh, you know, was -- maybe didn't have as much background as -- as a lot -- a lot of -- and obviously, a very bright and -- and good man, uh, but boy, he -- he -- did he ever rise to this occasion because he was -- he was running the Fed; Greenspan was out of touch. Uh, the leader of the Fed was nowhere to be -- you couldn't be hard -- hardly contacted. So Roger got us all -- all of the Presidents and, uh, some of the Board members, they were all around the country but they couldn't get back to -- to D.C. because of planes, you know, were all grounded. And that was what? How long did it go on? Three, four days, I think.

INTERVIEWER: Yeah.

BROADDUS: So they were -- I remembered one guy Ed Gramlich who was member of the Board had to drive all the way back from Arizona. You know, you're with -- got a couple of guys -- business guys here and they rented a car and drove back to D.C.

But, uh, so Roger got us all together and so what we focused on, to a large extent, of course there was -- there was -- they were monitoring banking policy implications. We had to provide liquidity. There was a lot of fear and, you know, that's the kind of situation where people want to draw their money out of the bank, buy gold, put it under their bed. I'm exaggerating, you know, that kind of thing. So we had, first of all, uh, are, you know, Roger knew enough economics to -- to know this and of course you -- you had, uh, Bill McDonough at the New York Fed, a knowledgeable banker, so everybody knew, uh, that we needed to provide whatever liquidity -- we told the banks, you need to borrow from us, we'll -- we will lend. Freely. Uh, to make sure that there is no liquidity crisis.

But then, once that had been, uh, uh, pretty much, uh, taken care of, then it became a matter of infrastructure, making sure that the payment system was functioning, that if, you know, especially large dollar payments from business firms to banks because they've got to fund payrolls or whatever, you know, so that people could get paid.

Then, you know, a similar thing was Y2K, but not saying -- it wasn't -- did -- that was earlier, of course, uh, when, you know, that was -- not to say it was similar. It was similar in some very limited ways, but, uh, -- we had a lot of time to prepare for that, that was no surprise there and we did all this work -- and I remember I spent that New Year's Eve right here watching the fireworks on Browns Island. And when midnight came, is everything going to crash?

INTERVIEWER: (Laughing.)

BROADDUS: Well, it didn't crash and we -- and life went on and, uh, in fact, there was nothing. The lights didn't even dim and --

INTERVIEWER: Yeah. Did you have a flashlight --

BROADDUS: We were almost disappointed, uh (laughing) --

INTERVIEWER: (Laughing.)

BROADDUS: So those are my recollections of those events.

INTERVIEWER: Okay.

INTERVIEWER 2: You know, I'm going to go back to the inflation thing. You mentioned something about inflation has been so low for so long. You know, we have people who don't remember it. I remember it because I grew up in the '70s, early '80s. Um, do you think we're starting to fall in that complacency? And I think Ken Rogoff, for example, there's been others, have suggested one way out of our current condition is to let inflation go up to four or five percent and -- I heard that about a year ago. I haven't seen a lot of news articles on that, but do you think --

BROADDUS: That would be one way to reduce the deflation risk, wouldn't it?

INTERVIEWER 2: Yeah.

INTERVIEWER: (Laughing.)

BROADDUS: Well that -- all that -- the -- those kinds of -- those points of view would make -- make me very nervous. Um, and, you know, this is one of the reason that I have, uh, for many years, uh, advocated an inflation target. I'm not the only guy that did, Marvin, of course, was strongly in favor of that. I think I'm correct in telling you that -- that I, representing the Richmond Bank, and I think this would have been in -- it's early in my term as president, probably around '94 or '95, first guy that -- that officially advocated the -- the inflation target. And of course we now have one at about two percent. A lot of other central banks have it. And, William -- do you go by William or Bill?

INTERVIEWER 2: William.

[00:55:32]

BROADDUS: Uh, the, uh, uh, the -- the -- this, uh, was the hard sell back -- back in -- in those days when we kept -- had been advocating and, uh, advocating it. And the advantage of -- of an inflation target like two percent is that it -- it -- it gives you a reason when, uh, first -- first of all, you could argue whether you need to have an even lower rate. And there's -- and -- and they, uh, that -- but, to me, that's a detail. It should -- certainly shouldn't be any higher than two, but if it's two or one and a half percent at an annual rate, that inflate -- if we knew -- again, that's the issue of credibility. If you know, and as -- and people expect that yeah, you ought to have that little bit of inflation as a sort of lubrication, but it ain't gonna go any further than that, we believe that the Fed will hit that target. Uh, that gives you the -- the -- the room to avoid getting -- letting inflation get so low that you -- you run the risk of deflation. But at the same time, you know, is -- is -- is a rate that is consistent with confidence that the Fed will not allow inflation to rise again.

So, uh, one of the great things about a target is, is it undercuts, for me, arguments like -- like -- like the one that Rogoff -- I mean, Rogoff is a great economist and I -- I know him and I have -- I've got a lot of respect for him, but -- and you -- and you might be able, I think -- I think others have made this -- this -- this same argument. Who's the guy that's running the IMF now? I can't remember. French guy, I can't remember his name right offhand, but anyway, a lot of people have, you know, argued that, you know, yeah. This, uh, in -- inflation is so low now you could temporarily jack it up, really stimulate the economy, get the economy turned on again. And I understand that the -- the motive in this, uh, you know, is certainly not -- not -- not difficult to understand. I mean, we are -- the economy, the real economy is weak, unemployment is high, that's, uh, hugely damaging, not only to the economy in a narrow sense, but the entire society and to individuals and to families. Uh, but if -- if -- it -- it just scares me that if you -- if you deliberately, if you aim at something like five percent, that's gonna break everything we worked, you know, the confidence and the credibility that we spent so many years and significant cost achieving. So I -- my -- my own -- and -- and -- I -- and -- and frankly, I think it -- that could easily backfire, it seems to me.

INTERVIEWER: Uh-huh.

BROADDUS: Because if that kind of action were to bring back the uncertainty regarding our, uh, inflation and with the interest rates, going forward, that's going to have, I think, a negative impact on longer runs, strategic planning in business firms and I'm now serving on business boards so I have a sense of that, on the ground now, that I didn't have before. Uh, I -- I'm not sure that it's going to -- to produce the result that is anticipated and that the better and more sensible, uh, uh, approach is to go ahead and argue -- I mean, if -- if -- and if you had two percent, if -- you can get an awful lot, uh, that -- that's going to keep the economy from going down. I mean, if you've got a two percent inflation rate, the Federal Reserve has done about all that it can do for job growth over the longer run then it -- then the rest of it is pretty much up to the economy, it's up to business firms. And they'll do that -- they'll do their trick, consumers, you know, if they're confident that this element of uncertainty and potential damage to their futures is not there.

And I'm oversimplifying a little bit but that -- that's my point of view and that's -- that's -- that's, uh, you know, uh, and I think -- I think an important one. So I -- I'm really happy, and I guess it was just earlier this year, made -- I can't -- trying to remember when that two percent, maybe it was early last year that Bernanke kind of quietly, you know -- he's always advocated, uh, and inflation target. But -- but when he became chairman, he wisely didn't say I'm going to do this, because we do have the dual mandate given by Congress that's the law of the land: Equal importance to inflation and jobs. But the problem is -- is that the Fed can't affect jobs in any really direct way. It can only do -- provide a foundation that will allow the job market to function well. With inflation, that's another matter, inflation, ultimately, is a monetary phenomenon. It is under the direct control of the Federal Reserve. Only the Federal Reserve, over time, can -- can fight either inflation or deflation. So this -- it's not symmetrical, even though the politics led to this -- this law.

[01:00:07]

So that, uh, that's why there was a lot of resistance to an inflation target for many years, even from people who might recognize that inflation was a problem. They would say, and I think this was Greenspan, uh, that -- I believe what -- if he were here he would tell you, yeah, I certainly understood the value of an inflation target, he was very hawkish. But if that had gone up to the Hill, you know, and said we're going to have an inflation target they would have said what about jobs. And then somebody would have come up with a job target.

INTERVIEWER: Right.

BROADDUS: Okay. And I would have had to, you know, and so he did -- he said that's just dangerous territory. So Bernanke was wise in -- in not doing -- I mean, I -- it's easy for me to advocate from the -- from the -- you know, from the table, to do this. But, uh, and I -- I recognize, and did even at the time, that the idea was to sort of slowly move towards this. And that's what he very wisely did. He didn't say hey, I'm chairman, now we're going to have an inflation target. He quietly, over time, made the case, made the case quietly, kept the inflation rate low, and then when we began to see inflation getting real low and the economy is kind of weak, he began to -- and he was able to say hey, now the inflation rate is one percent, let's -- maybe we need to -- we need to make sure they're not going down too far, so let's have a two percent inflation target. So it didn't, you know, no -- no trumpets, no nothing, but it's there -- it's there.

INTERVIEWER: (Laughing.)

BROADDUS: And I think that's -- my own view is that that's optimal and that it will serve us well over time and that we shouldn't play around with it, even at three percent or anything like that. I mean, it should be seen as permanent --

INTERVIEWER: Yeah.

BROADDUS: -- not temporary.

INTERVIEWER 2: You would support the Brady Bill that's in Congress now to get rid of the dual mandate in favor of the one, price stability?

BROADDUS: I would. But I think -- I don't think it's going to happen, but I -- I --

INTERVIEWER 2: Yeah.

BROADDUS: -- Actually, the American Enterprise Institute had a program, about six months ago maybe, I was one of several people on that panel. Uh, Don Kohn, who used to be the chief staff guy at the -- the -- at the Board was also there and a fellow from New York. I can't remember exactly who else. And actually the congressman was there, he was from Texas, I think, Brady. And I like, uh, much about that bill and that was -- I -- and I love that -- I'd love to see that. He would have to be extreme -- and I think it ought -- I mean, I admire him for doing this, uh, you know, of course, the -- the -- uh, there's a certain political element to -- well, we'll say this guy doesn't know anything about the job market, he doesn't care about jobs, he's, uh, but which is not true, so he -- it would have to be explained to the public that inflation, uh, is that if you change this mandate it's not a statement that you don't care about jobs or unemployment, it's a statement, uh, you know, that -- backed up by the logic that I -- I mentioned earlier so. And you know, I'd love to something like this pass. I don't think it's -- it's likely. I think -- there is a risk that if you get that on the table you could get a perverse result.

INTERVIEWER: Yeah.

BROADDUS: And so he's got to be careful with it. There's some other things -- I'm trying to remember what else is in that bill that that mandate changed.

INTERVIEWER: Was that taking the presidents --

BROADDUS: Oh, yeah.

INTERVIEWER: -- or making the presidents a voting member?

BROADDUS: He was gonna --

INTERVIEWER 2: I think it was, yeah.

BROADDUS: He was gonna -- actually, he was -- yeah, was gonna make, uh -- and that's a -- and that's a good point that's -- that may be relevant to this interview. I think one of the proposals is, you know, now, as you well know, you have, at any one time, only12 participants vote.

INTERVIEWER: Uh-huh.

BROADDUS: And in -- but -- so the seven members of the Board of Governors, assuming all those seats are filled, have a majority of the votes. And of course New York has -- has the vote all the time so that's -- there are only four -- or is it five seats.

INTERVIEWER: It's five.

BROADDUS: Eight -- eight -- five -- it's five -- five of us that would rotate. Is that right? No, it's four.

INTERVIEWER: Four.

BROADDUS: Four of us would rotate, five -- five members --

INTERVIEWER: Cleveland has a funny position. Like there's always a Cleveland person everywhere.

BROADDUS: That's right. Cleveland goes back -- and Cleveland rotates with, uh -- who is it, Philadelphia? No, not Philadelphia, Chicago. Chicago. They go back and forth, but that's all -- all sort of historical detail. I think this bill would put all of the -- he would give a permanent vote to all FOMC members. But that makes me nervous, even though I'm a loyal Reserve Bank guy, because then the Reserve Banks would have a majority of the FOMC votes. Uh, but the Board of Governors is central authority in the Federal Reserve. Um, and it, you know, it -- it -- under the law it has all of the supervisory authority and I'm -- and -- and the chairman, uh, is clearly seen by the public as the center of -- of the Federal Reserve and the spokesman for the Federal Reserve. So, uh, and -- and of course they are all appointed by the President and approved by the Senate. So I think the first thing, and this is really the key point in a way, if -- if that were to pass, the next thing that would have to happen, have to happen, is that all of -- all -- all of the presidents would be appointed, not under the current process where you're appointed by your local board and then approved by the Board of Governors, who are appointed by the President, so it -- so it's sort of a two-step --

INTERVIEWER: Yeah.

BROADDUS: -- removal there from the political process, to being directly part of the process. Well, you know how long it takes to get people approved, you know, now.

INTERVIEWER 2: Yeah.

[01:05:28]

BROADDUS: You would have Reserve Bank presidencies vacant for months.

INTERVIEWER: Yeah.

BROADDUS: So it -- that's just not a good outcome. So I think that, you know, this -- it's an awkward -- little bit awkward, structurally, now, but it -- it's the best for me. You know -- you know, it's the best way to go. Now, so I wouldn't -- I wouldn't support that.

INTERVIEWER 2: I've got one more question.

INTERVIEWER: Yeah.

INTERVIEWER 2: Pam, I don't know if you want to finish up too. Um, I asked Mr. Black this: Richard Fisher in Dallas has talked about "too big to fail" and that hasn't quite been defined yet after Dodd-Frank. Of course Mr. Fisher would like to see, uh, large banks broken up, as one way to solve that problem; Jeff doesn't necessarily agree with it. What is your take on how to define "too big to fail" and what to do about it?

BROADDUS: It's -- it's a big problem, that's for sure, it -- it's one that became a big problem after I left so I didn't really have to -- to -- I mean, it was growing, you know, we were beginning to deal with these kinds of issues but they were brought, uh, to -- into everybody's living room in the crisis -- during the crisis. Um, and I've got -- I'm -- I'm -- I can't -- it's going to be hard to give you a crisp answer because I'm not sure that I -- I have my own thinking about this settled yet, William. But, uh, I'm skeptical about just breaking banks up and what, you know, you give -- you give the government the authority to -- to intervene, uh, there are a lot of things here and -- and -- and there's -- obviously a case could be made for that, in that a big, complex banking organization may be very difficult for even good managers to manage appropriately. Uh, it, you know, it -- you -- that can create and spread effects in financial markets if one bank -- really big, like the Bank of America, if we could have -- or some other bank of that size where we saw this, of course, in '08. You know, that -- that can cause problems -- problems at other financial institutions and -- and -- and all sorts of difficulties that we now see in the -- sort of up close and personal in -- in the financial crisis. Uh, so, uh, again, you could sort of make a case for it. The problem is that, uh, in a global economy, you can have many countries that have very large banks, Japanese banks, of course, come to mind, and some European banks, that our banks have to compete with. So if you've got our banks, uh, size, uh, and maybe offerings, uh, uh, of our banks controlled or limited in some way by the -- through the political process, that could have, uh, implications, competitive implications that are not -- are not desirable. Uh, you know, if you believe -- if you believe -- if you believe in free markets and, you know, if -- a lot of the drive for -- for large banking organizations is underlying, it's not easy to see it and track it, not terribly visible, but it's being driven by underlying economic forces. There's been a lot of research on economies of scale and banking and it may not be so simple as that. But it seems to happen. And I don't think it's necessarily just because you got some people and, you know, they want to make more money, although that's certainly, uh, driving part of it. Uh, but to limit, you know, uh, if a bank grows to a significant size, J.P. Morgan, you know, uh, of course, you know, that's not a good example with this latest trading thing, but the bank as a whole does a very good job out -- outside of that, if you really look at it in a balanced, uh, way. You might lose some of that if you -- if you had a situation where the government would come in and make fairly -- I mean, they might have -- they might have -- guidelines, but they're gonna ultimately be, you know, it could easily evolve into a situation where we have arbitrary decisions to limit -- to break up a bank. What are you gonna do, take that section and get it out of here? So I, so it's not that I'm saying that, that I just disagree flatly with Richard, um, but I'm, I'm more, uh, cautious about it. I think that there could be some unforeseen consequences of giving the government this power that need to be thought through very carefully. I think that's kind of Jeff's position if I'm not mistaken.

[01:09:39]

INTERVIEWER: Yeah.

BROADDUS: And it's not the only way to deal with the, with the issue, you know, and some -- for all of its criticism, um, I think the -- and I don't -- Jeff might not agree with me on this, I think he has a more negative view of the resolution portions of Dodd-Frank than I do, but it seems to me you know if you have this oversight group that we have now -- Financial Services oversight Committee or whatever it is, that has the Fed Chairman and several other people on it -- that has the job of monitoring much more closely than has been done in the past the very largest financial organizations, not just banks, but you know, the other, the other institutions, like Goldman --I guess Goldman is a bank now -- but they probably want to get of their charter. I don't care whether they're a bank, technically or legally or not, but, uh, just more oversight, more reporting, more transparency, that's being looked at by the Federal Reserve and other regulatory agencies. I think that does a lot to help us, uh, mitigate this risk of financial crises. And you're always gonna have -- it's hard to see, short of controlling the whole industry in a really Draconian way that would be very damaging, it's hard to see how you're gonna get rid of the risk altogether. Zero risk of, of some, some financial problems is probably not optimal. You know, you shut down the -- the viable output of financial markets. So you know this idea of kind of stress testing, having these living wills that kind of forces banks and their regulators, to you know, in a really detailed way think about well, what if something does happen? We don't want to be -- you know -- we want to know how this would be worked out. There was nothing like that in place in '08 to deal with Lehman, or Bear, or any of them. So you know a lot of people say that transparency -- that's, you know, kind of cosmetic. But I don't think so. I think if it's executed right, that could be um, risk reducing, and um, you know obviously if you've, if you've got, um -- I think an argument against that is that if the government is doing this, and kind of everybody knows it, there may be this sense that they're implicitly assuring these institutions and all of the -- the -- you know -- they're obviously "too big to fail" so they're doing all this stuff, uh, to supervise it, uh, but they may fail and if they're failing the government will come in and bail them out again, and we've got to get rid of that.

I understand that argument and I understand the concern. I think Jeff is concerned about that, that aspect of it. But you know sometimes -- Jim Parthemos, to go back, to kind of circle all the way back to the beginning of the interview, had -- was a man of Greek, um, descent. He was not an immigrant, but I think his parents -- he was a son of immigrants. And he use to have this, uh -- he had all these Greek sayings that he would share with us -- I got Greek beads from him once -- Well, maybe Bob Hetzel gave me those after a trip to Greece -- he used to, there was this old proverb that the best is the enemy of the good. Which means that it, you know, if you try to be too perfect, if you try to get everything exactly right, you may wind up not getting the best outcome. Uh, it's a wise -- I use it all the time with my wife when I don't get -- don't paint things right or whatever, you know, best is the enemy of the good, I might spill the paint all over the floor.

INTERVIEWERS: (Laughing.)

BROADDUS: And I think that's got some relevance here, and uh, so while it may be, it may be optimal, uh, to, approach this problem differently and have the government have a more interventionist authority, I think my own view is that that might pushing it too far, might be going too much for the gold and we may need to -- the best optimal outcome may be something short of that where you still have some risk, but the likelihood of doing damage -- you know the other great adage is that, the physician's creed or whatever it is, first do no harm, and I think that, some of that's relevant here too.

So those--that's a bunch of rambling but that's kind of where I am on that. It's just a tough issue. Tough issue.

INTERVIEWER: Well, I guess just an overarching concluding statement, just very broadly, how you would characterize your, your career here, what you loved about it, what you…?

BROADDUS: Well I loved this career. Well I feel, I just consider myself so, so, very, very fortunate. I don't know many guys that are any luckier than I am. And you know, it's not just becoming a part of the Federal Reserve -- that was part of it -- but coming to this Bank, uh, is also -- I mean I was very close to going to the Cleveland Fed. Who knows, maybe that would have been a nice -- that's a great Bank too, and I have a lot of friends out there, but something about this Bank and its culture and its people and its leadership, uh, over the years, that has just -- and not just its leadership, but all of its people.

[01:14:42]

But you know, for me, the great joy was just coming in here every day. I always looked forward -- hardly any day where I just didn't want to come to work because I had some sort of problem. Maybe that week with 9/11 was a kind of a rough one, but, uh, it was just -- just a joy. It was intellectually stimulating, and great colleagues, and people I haven't mentioned like Tom Humphrey, you know, the great historian of economic doctrine. Hell, we still run together. And uh, Tim, and all the guys in research. But as I became president -- and even before that -- I got to know so many other people. And loved to eat lunch with these folks, and learn what they were doing, and all this is you know, fun and personally very satisfying. But there's underlying it all, the-- the understanding that you're doing something that really matters, that's really important, uh, for the public, uh, and that really makes a contribution to the quality of our society.

We don't do everything perfectly. We make mistakes. And they're challenging problems, uh, that the Fed is a hugely important institution. Uh, I think that's more generally recognized now than it, than it has been in the past. So there are consequences if you don't do the job right. But just knowing every day that I was part of that, making a contribution, and that I had a great team around me to help, was just a source of great satisfaction, and I look on it -- I look back on it -- with a lot of satisfaction. I've been serving on public company boards, and that's been fun. I've seen a lot more of the private sector since I left, uh, that's all fun, and I've learned -- I wish I had known some things that I know now when I was president here, I would have been a better -- better president, uh, but, uh, it's not the same. It's not -- I get a lot of satisfaction but it's not like it was here, not like I did here. I love the place. I really do.